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30 June 2003

To: Ms. Anna Tibaijuka, Executive Director  
United Nations Human Settlements Programme (UN-Habitat)

From: Esther Stern, Director  
Internal Audit Division, OIOS

Subject: **OIOS Audit Number AF02/24/1: Management Audit of the UN-Habitat  
Settlement Rehabilitation Programme (SRP) in Northern Iraq**

1. I am pleased to present herewith the final report on the subject audit, which was conducted in Kenya and Iraq in November and December 2002. The audit was conducted in accordance with the general and specific standards for the professional practice of internal auditing in United Nations organizations.

2. The report incorporates, as appropriate, your comments of 19 May 2003, which are marked in italics. We note with appreciation that you have accepted 41 of the 43 recommendations. In this regard, we have closed recommendations 3, 4(e), 7, 8, 10, 24, 25, 34 and 43. We will close recommendations 1, 2, 4(b) to (d), 5, 6, 11, 13, 15, 16 to 23, 26, 27, 29 to 33, and 35 to 42 upon receipt of documentation and clarification as indicated in the text of the final report. Concerning recommendations 4(a), 9, 12, 28 and 32, we have provided additional information in the report. We have also modified recommendation 14 based on your response. Based on your review of this information, we request that you reconsider your reply to these recommendations.

3. We also are assessing the overall quality of the audit process and kindly request that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey form.

4. I take this opportunity to thank the management and staff for the assistance and cooperation provided to the auditors in connection with this assignment.

cc: Ms. C. Bertini  
Mr. J. P. Halbwaack  
Board of Auditors

Best regards.



**United Nations**  
**OFFICE OF INTERNAL OVERSIGHT SERVICES**  
**Internal Audit Division**

# Audit Report

**Audit subject:** Management Audit of the UN-Habitat Settlement Rehabilitation Programme in Northern Iraq

**Audit No.:** AF2002/24/1

**Report date:** 30 June 2003

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**Management audit of the UN-Habitat Settlement Rehabilitation Programme  
in Northern Iraq (SRP) (AF2002/24/1)**

**Executive Summary**

In November and December 2002, OIOS conducted a management audit of the UN-Habitat Settlement Rehabilitation Programme in Northern Iraq (SRP). The primary objectives of the audit were to assess the implementation of the delegation of procurement authority and related procedures, and determine if adequate internal controls have been established in the contractor procurement process.

The audit found a situation of mismanagement, which requires urgent attention. The neglect to mitigate high-risk areas has already resulted in loss of funds in excess of \$2 million and could result in additional financial losses in excess of \$10 million. Of particular worry is the blatant neglect of UN-Habitat to implement previous audit recommendation made by OIOS and the Board of Auditors, even though UN-Habitat senior management had accepted them.

Only eleven out of 45 previous audit recommendations had been implemented. OIOS notes with distress that senior management reported 12 recommendations as implemented while this, in fact, was not the case. In this report OIOS has made an additional 43 recommendations of which twelve are considered critical. Major audit findings were as follows:

- The failure to delete the currency fluctuation clause from construction contracts has resulted in a loss of \$1.7 million and could result in further losses of \$10 million are projected should the current exchange rate against the US Dollar stay the same or appreciate further.
- In 2001-02, local authority personnel had been paid \$625,000 although they are not employed nor provide any required service to the SRP.
- Unnecessary recruitment of over 100 assistant site engineers had resulted in unjustified expenditure of approximately \$470,000.
- The handling of the bidding process for construction contracts shows serious weaknesses. There is no assurance that senior management exercises and can demonstrate due diligence and that the organization is getting "best value for money".
- The absence of an established reporting and approval structure prevents Senior Management from monitoring the activities, ensuring alignment with UN-Habitat agenda and enabling corrective action to be taken in a timely manner.
- Inadequate succession planning, slow recruitment of replacement staff, and the lack of a roster of pre-screened international personnel, had resulted in the absence of key personnel at the SRP for extended periods of time. This, along with the high turnover of key SRP personnel had led to a lack of direction, ad-hoc management practices and procedures, and a lack of coordination between the Core Team and the field offices.

- While the SRP had been successful in producing housing units and other facilities, ad-hoc management practices had led to a number of shortcomings in project management as follows:

- A lack of coordination with other agencies to provide complementary services resulted in approximately 3,200 completed houses being unoccupied for extended periods;
- Resettling the most needy internally displaced persons and vulnerable groups had not been given priority;
- Project selection and allocation of housing were susceptible to pressure from local authorities;
- Contractors' capabilities and performance were not properly evaluated;
- There was a lack of standard operating procedures in the field offices; and
- Completed projects were not adequately evaluated.

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## I. INTRODUCTION

1. In November and December 2002, OIOS conducted an audit of the United Nations Human Settlements Programme's (UN-Habitat) Settlement Rehabilitation Programme in Northern Iraq (SRP). The Executive Director (ED) of UN-Habitat had requested that the audit include a review of critical management issues. The audit was performed in accordance with the general and specific standards for the professional practice of internal auditing in United Nations organizations.

2. UN-Habitat is one of nine UN organizations implementing projects in various sectors funded under Security Council Resolution (SCR) 986 (1995). The terms and conditions of UN-Habitat's activities in Northern Iraq are contained in a memorandum of understanding (MOU) signed with the Office of the Iraq Programme on 10 August 1998. The main services to be provided by UN-Habitat under the MOU (Article 2) are to:

- Procure humanitarian supplies agreed by OIP;
- Provide appropriate storage and maintenance services for the humanitarian supplies; and
- Maintain an inventory of humanitarian and other supplies procured in accordance with the MOU.

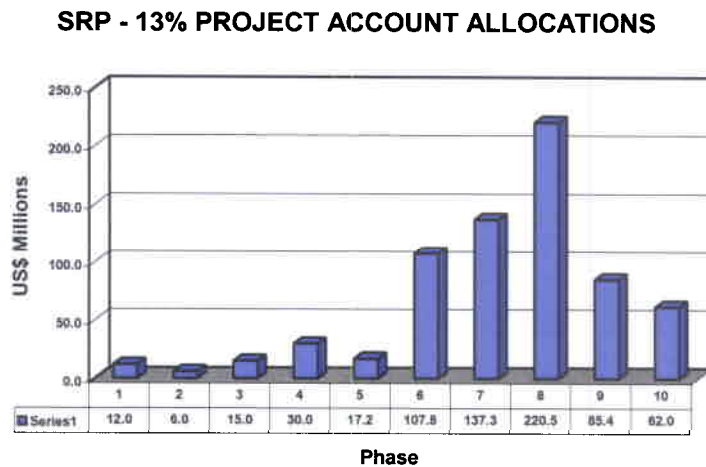
3. The MOU also spells out other conditions including:

- Funding arrangements (Article 3);
- Financial reporting and accounts (Article 4);
- Insurance/liabilities (Article 5); and
- Miscellaneous provisions (Article 6).

4. The primary purpose of the SRP, which commenced in June 1997, is to rehabilitate and resettle internally displaced persons and vulnerable groups in the northern Iraq governorates of Erbil, Dohuk and Suleimaniyah. Projects are funded from the thirteen per cent account, and administrative expenditures from the 2.2 per cent account under SCR 986 (1995). Figure 1 shows allocations to UN-Habitat for project expenditures (13 per cent account) up to phase 10 of the programme, which ended on 30 November 2001.

5. The operating environment in Northern Iraq is difficult due to: (i) the lack of adequate government infrastructure; (ii) inadequately developed governance practices of the Local Authorities (LAs); (iii) lack of banking facilities and other civilian infrastructures; and (iv) the need to coordinate implementation activities with the Government of Iraq (GOI). These factors present certain obstacles to implementing project activities.

**Figure 1**



6. The Project headquarters, referred to as the Core Management Team, is located in Erbil. In addition, there are three field offices located in Erbil, Dohuk and Suleimaniyah. An administrative office in Amman, Jordan and a liaison office in Baghdad provide support and coordinate activities with UNDP, UNOHCI and the GOI.

7. The findings and recommendations from our review of operations in Northern Iraq were discussed with SRP management in Northern Iraq. Subsequently, the audit team briefed senior UN-Habitat officials in Nairobi on the audit results. UN-Habitat's response to the draft audit report are reflected in the report as appropriate, and indicated by the use of italics.

## **II. AUDIT OBJECTIVES**

8. The audit objectives were to:

- i. Assess the adequacy of the delegation of procurement authority and related procedures;
- ii. Determine if adequate internal controls had been established for contracting/procurement;
- iii. Review the SRP's organization structure and personnel requirements;
- iv. Assess project management procedures;
- v. Assess the adequacy of support provided by UN-Habitat headquarters, UNON and the Baghdad liaison office;
- vi. Assess the adequacy of selected financial and administrative procedures; and
- vii. Follow up on implementation of previous audit recommendations.

### **III. AUDIT SCOPE**

9. The audit reviewed tendering procedures for construction contracts and contract management, and selected financial and administrative procedures. In addition, we reviewed programme management procedures in Nairobi as well as support services provided by both UN-Habitat and UNON. Our review consisted of examining books and records, and documentation such as contracts, tender documents, bid abstracts and bid evaluation documents. In addition, we interviewed senior Core Team officials in Erbil and key staff at field offices. We also visited the Dohuk, Erbil and Suleimaniyah field offices to review tendering and contract management procedures.

### **IV. OVERALL ASSESSMENT**

10. Previous OIOS recommendations had not been implemented in certain high-risk areas, including (i) procedures for the procurement of contractors; (ii) lack of segregation of duties between procurement and operational personnel; (iii) lack of involvement of the Chief Administrative Officer (CAO) in areas with financial implications, including reviewing and approving liquidated damages, contract extensions, variation orders, etc.; and (iv) the currency fluctuation clause included in construction contracts. The failure to delete the currency fluctuation clause from construction contracts had resulted in a loss of \$1.7 million and could result in further losses of over \$10 million may result should the current exchange rate stay the same or appreciate further against the US dollar. There had been a lack of willingness by SRP management to implement OIOS' recommendations to prevent and mitigate the high-risk areas. Furthermore, UN-Habitat management had not properly followed up on the implementation of the recommendations. Priority should be given to correcting the deficiencies identified by OIOS and ensuring that those responsible for implementing the recommendations are held accountable.

### **V. AUDIT FINDINGS AND RECOMMENDATIONS**

#### **A. Procurement delegation of authority**

11. On 12 October 2001, the UN-Habitat ED delegated authority to the SRP for direct procurement of goods, services and works procured locally, which became effective on 05 November 2001. The SRP Local Committee on Contracts (LCC) came into being on 18 April 2002, about six months after the original delegation of authority. The LCC held its first meeting on 30 April 2002 and has met a total of 19 times. Furthermore, a Contract and Processing Unit (CPU) was established in January 2002, with a Procurement Officer (PO) and five local staff.

12. The delegation of authority was subject to several conditions including establishing:

- (i) An LCC in the Core Team.
- (ii) A Contracts and Processing Unit (CPU) in the Core Team to maintain a supplier/contractors roster to be referred to when selecting suppliers/contractors for solicitation of quotations/tenders/bids.



- (iii) Adequate segregation of duties for the procurement requisitioning functions as specified in the delegation and in compliance with the UN Financial Regulations and Rules and the Procurement Manual.
- (iv) Periodic reporting to UN-Habitat headquarters in Nairobi and to UNON. The delegation was also specific about the threshold amounts for signing authority.

The conditions for implementing the procurement delegation of authority have not been met

13. In order to evaluate whether the delegation of authority was functioning as intended and if the conditions in the delegation of authority had been met, we reviewed the LCC submissions as well as the systems and procedures established by the SRP. The following major weaknesses were found:

Bidding stage

- The CPU did not maintain a contractor roster for civil works, which continued to be separately maintained by the field offices. The CPU only maintained the roster for suppliers of goods.
- The field offices continued to select bidders for invitation, evaluate bids, award contracts, etc., which should be core functions of the CPU.
- Bidding exercises were restrictive even though the delegation specified that contracts from \$25,000 to \$150,000 should have at least ten bidders. This was seldom done and when questioned in the LCC, unconvincing reasons were given by field offices to justify the awards. In the present circumstances therefore there is no assurance that the Organization is getting best "value for money".
- Open bidding recommended by OIOS in a previous report (AF2001/32/2) had not been implemented even though the SRP had reported the recommendation as being implemented.
- The selection criterion adopted by the field offices to invite bidders was not consistent, documented and transparent. At times, the second lowest bidder in a bidding exercise was not invited when re-bidding for the same contract.

Bid opening and evaluation stage

- The field offices were sending bids evaluations to the Operations Unit (OU) in the Core Team and not to the CPU, which is responsible for assessing them.
- The OU was evaluating bids and not the CPU. Furthermore, the OU was sending contract proposals over \$600,000 to LCC/UNON.

- The Field Offices sometimes contacted the lowest bidder prior to the case being submitted to the LCC. Thus, in effect, the field offices were discharging all procurement functions, with CPU and LCC later endorsing the field offices' proposals.

#### Review by LCC

- While the minutes of the LCC indicated that members had raised comments and questions, the responses by the field offices were not documented in the minutes.
- The Procurement Officer who presents the cases to the LCC also acts as the Secretary of the LCC. OIOS is of the opinion that an independent Secretary to the LCC should be designated.

#### Reporting to UN-Habitat headquarters

- Even though the delegation of authority required the submission of monthly procurement reports to UNCHS Nairobi including a description of each contract, lowest bidder, amount of the award, justification for the award, abstract of bids and copies of LCC minutes, the CTA did not do so. The first such reports were sent to Nairobi in November 2002. This prevented UNON and UN-Habitat headquarters from reviewing and monitoring contracts entered into by the SRP and the functioning of the delegation of authority. We consider this a serious lapse of internal control.
- As indicated in the delegation of authority, UNON was supposed to assign two procurement assistants from UNON for an initial period of six months to assist in setting up of the CPU. This did not happen because Iraqi visas could not be arranged. Further, the Chairperson of the LCC and the Chief of CPS, UNON were unable to come to Erbil to oversee the initial implementation and to review the implementation of the delegation.
- Under the delegation of authority, the CTA was required to maintain an equipment inventory and submit mid-year and year-end reports to UNON. However, no such reports had been submitted.

14. As a result of the Core Team's failure to meet the requirements of the delegation of authority, the Director, IAD/OIOS recommended in a memorandum to the UN-Habitat ED that the delegation be suspended until: (i) appropriate procedures and internal controls are established; and (ii) UNON and UN-Habitat verify that the appropriate procedures have been established in accordance with UN Regulations and Rules and the Procurement Manual. In OIOS' opinion, there needs to be a complete reorganization of the SRP procurement function including centralizing the process within the CPU, which should be fully responsible for ensuring that procurement procedures are done in compliance with UN Regulations and Rules and the UN Procurement Manual. Moreover, there is a need to ensure that the roles of the field offices in the procurement process are fully defined. Habitat should also consider transferring experienced procurement personnel from Nairobi to the SRP in order to ensure the effectiveness and independence of the function.

### **Recommendations 1 to 10:**

OIOS recommends that UN-Habitat:

- (i) Suspend the delegation of procurement authority until such time as proper procedures and segregation of duties have been established, including development of written procedures and clear lines of responsibility (AF02/24/1/001);
- (ii) Before the delegation of procurement authority is restored, UNON and UN-Habitat should review and verify that the internal controls and procedures established by the Settlement Rehabilitation Programme are adequate and comply with UN Financial Regulations and Rules and the UN Procurement manual (AF02/24/1/002);
- (iii) Ensure that the minutes of the LCC fully reflect and document the deliberations of the LCC meeting (AF02/24/1/003);
- (iv) Implement the following procurement procedures and internal control measures in the Settlement Rehabilitation Programme:
  - (a) Establish open bidding procedures for all construction contracts;
  - (b) Centralize the contractor roster and the selection of invitees in the Contracts and Processing Unit to enable them to discharge their functions independently for bidding exercises;
  - (c) Make the Contracts and Processing Unit (CPU) responsible for establishing the criteria to pre-qualify bidders and ensure that the CPU performs all evaluations of bids;
  - (d) Ensure that the procurement sub-units in field offices directly report to the CAO through the Programme Management Officer; and
  - (e) Designate an independent Secretary to the Settlement Rehabilitation Programme, LCC (AF02/24/1/004);
- (v) Ensure that the Contracts and Processing Unit transmits all procurement cases involving amounts of more than \$600,000 to UNON in conformity with the delegation of procurement authority (AF02/24/1/005);

(vi) Discontinue the involvement of field offices in evaluating bids, and instruct field offices not to contact the bidders while the procurement process is ongoing (AF02/24/1/006);

(vii) Ascertain why monthly procurement reports were not sent to UN-Habitat headquarters during the initial period, as required by the delegation of authority, and determine the accountability for this lapse (AF02/24/1/007);

(viii) Establish a procedure for the Contracts and Processing Unit to send monthly procurement reports, as specified in the delegation of authority including LCC minutes, to UN-Habitat for their review as an additional monitoring mechanism (AF02/24/1/008); and

(ix) Request the assignment of two procurement assistants from CPS/UNON to Contracts and Processing Unit in Erbil to strengthen the Unit so it can fully discharge its functions (AF02/24/1/009);

*15. In response to the draft audit report, UN-Habitat agreed with recommendation 001, 002, 004(b), 004(c), 004(d), 005, and 006 and indicated that procedures were reviewed and appropriate steps were taken to implement the recommendations. OIOS will close these recommendations in its database upon receipt of the following documentation:*

Number	Recommendation
001	Written procedures including a chart, showing the steps in the procurement process establishing clear lines of responsibility and internal controls.
002	A written acknowledgement that internal controls established for procurement undertaken by the SRP are in compliance with UN Financial Regulations and Rules.
004(b)	Written instructions to the CTA that responsibility for the contractor roster will be in the Core Team Contract and Processing Unit.
004(c)	Written procedures indicating that the Contract and Processing Unit are responsible for establishing criteria to pre-qualify bidders.
004(d)	Organization chart showing reporting lines of field office procurement sub-units.
005	Instruction to the SRP Core Team to transmit all procurement cases exceeding \$600,000 to UNON.
006	Establishing of procedures to evaluate bids in accordance with recommendations.

16. Concerning recommendations 003, 004(e), 007, 008 and 010, UN-Habitat agreed with the recommendations and indicated that appropriate action had been taken to implement them. OIOS is therefore closing these recommendations in the database.

17. Regarding recommendation 004(a), UN-Habitat indicated that with the introduction of the revised Procurement Guidelines, a centralized roster in Core Team/Erbil was established and an adequate system was in place to ensure fairness and transparency in the invitation of contractors. The local media has only limited coverage, which would not serve the purpose of widespread notification. It is common practice among UN agencies to have the contracts placed on Field Offices' notice boards, which are accessible to all contractors and fully accepted by the contractors. OIOS maintains its view that it would be appropriate to ensure that there is widespread circulation of bids in order to ensure that all contractors are able to bid for contracts and to reduce the probability of bid rigging. We therefore request that the response to this recommendation be reconsidered. The recommendation will remain open in the OIOS database.

18. Concerning recommendation 009, UN-Habitat stated that this action was envisaged during the initial implementation phase of the Contracts and Procurement Unit, but did not materialize due to non-issuance of visas to the concerned staff. Experienced staff members are now on board and appropriate procedures are in place. Management does not see the need at this stage the need to further pursue this recommendation. In OIOS view, one of the chief reasons for the inadequate procurement procedures was the lack of trained staff in the Core Team. It is therefore necessary to strengthen it by assigning staff from UNON or by alternative means. In light of this, we request that UN-Habitat reconsider its response to the recommendation. The recommendation remains open in the OIOS database.

19. We also found that the Operations Unit (OU) was performing other critical functions having financial implications, which are normally the role of the CAO such as: (i) verification of interim invoice payments; (ii) following up on payments to contractors and claims for damages; and (iii) verifying and approving contract extensions, variation orders, and liquidated damages. This had resulted in serious internal control weaknesses.

#### **Recommendation 11:**

OIOS recommends that UN-Habitat ensure that functions with financial implications including reviewing and verifying: (i) progress payments; (ii) extension of contracts; (iii) liquidated damages; and (iv) variation orders are placed under the responsibility of the CAO (AF02/24/1/011).

20. UN-Habitat agreed with this recommendation and indicated that implementation was reflected in the revised guidelines for the procurement of civil works contracts which will come to reality once the current political situation is stabilized and staff able to resume work in Iraq. OIOS will keep this recommendation open in its database pending receipt of instructions to the SRP Core Team to ensure that the CAO reviews all functions that have financial implications.

## **B. Other procurement issues**

### Agency estimate for civil works

21. In a previous audit report (AF2001/32/2), we had observed that the agency estimate for a proposed civil work project, which is used as a basis for evaluating bids, was based on data that was not verifiable and employed a questionable methodology. Hence, there was no valid basis for relying on this estimate as a contractor selection tool. Furthermore, the field office and not the CPU prepared the agency estimate for individual contracts. This estimate is of particular importance, as UN-Habitat follows a policy of rejecting bids, which are 10 per cent lower or greater than of the agency estimate.

22. Often, the agency estimates were outdated and did not take into account the currency value on the date of tendering. This resulted in bids often being 30 to 40 per cent higher or lower than the agency estimate. Coupled with the fact that the basis of agency estimates is not documented and the absence of price indices in Northern Iraq, the present practice of rejecting bids that are 10 per cent lower or higher than the agency estimate does not achieve the best value for money.

23. In order to ensure that the price data is prepared in an independent and transparent fashion, it would be appropriate for the Joint Humanitarian Information Centre to gather and maintain such data, which could then be made available to all UN agencies in Northern Iraq. This would improve transparency, reduce risk of collusion and fraud in the bidding process at the field level, and enable the staff engaged in the preparation of such estimates to perform more meaningful activities.

### **Recommendations 12 to 14:**

OIOS recommends that UN-Habitat:

- (i) Ensure that the Contracts and Processing Unit is made responsible for the preparation of the agency estimates for all proposed civil works projects (AF02/24/1/012);
- (ii) Make arrangements in coordination with UNOHCI for the JHIC to maintain the price data which could be used by the Contracts and Processing Unit for preparing agency estimate and price monitoring (AF02/24/1/013); and
- (iii) Discontinue the practice of rejecting bids that are more than ten per cent lower than the agency estimate, to ensure best value for money (AF02/24/1/014).

24. *With regard to Recommendation 12, UN-Habitat did not agree and indicated that as per Section 7.06 of revised guidelines for the procurement of civil works contracts, the Agency Estimate will be done centrally under the full responsibility of the Core Team Operations Unit, as this Unit*



*has established a computerized system for calculating the bills of quantity. However, based on the importance of segregation of duties and transparency of functions of this recommendation, OIOS is reiterating and requests that you reconsider this recommendation. OIOS will keep it open in its database.*

25. *Concerning recommendation 13, UN-Habitat indicated that UNOHCI will not only monitor the prices but will also have to deploy necessary technical staff given that most of the items require an understanding of the technical specifications. Discussions will be carried out with UNOHCI in this regard as soon as the SRP management team is able to return to Iraq. OIOS will keep this recommendation open pending notification of its implementation.*

26. *Regarding recommendation 14, UN-Habitat does not agree and indicated that the stated practice of rejecting bids that are ten per cent lower than the agency estimate was never exercised. All submitted bids within the margin of +/- 10% of the Agency Estimate qualify for being considered for the offer of the tender. OIOS has modified this recommendation to read "more than ten percent lower than" and requests that UN-Habitat reconsider the modified recommendation.*

Delayed implementation of OIOS' audit recommendation to eliminate the currency fluctuation clause led to financial losses

27. An OIOS draft audit report (AF2001/32/2), issued on 7 December 2001, recommended that the SRP delete the currency exchange fluctuation clause in their contracts, which provided for adjustments of up to 30 per cent of the contract amount. An audit observation on this issue was also issued at that time, in order for SRP management to take immediate action. In response to the draft report, the ED accepted the recommendation and stated that measures would be taken to implement it, and that the SRP would monitor its effect.

28. However, the SRP did not implement the recommendation until July 2002. While the CTA maintained that he had advised the field offices to stop including this clause in February 2002, the field offices maintained that they had not received any guideline before July 2002. OIOS is of the opinion that the CAO/CTA/Programme Director could have detected the continued practice of including the clause in the Contracts, when they were presented for signature. Continuing to sign the contracts with the clause is unacceptable. Contracts with the currency clause continued to be signed as late as October 2002, on the grounds that these were bid prior to July 2002. In OIOS' view, the contracts with the clause should not have been signed, but rather should have been re-tendered instead.

29. Failure to implement the recommendation had led to avoidable losses of nearly \$1.7 million. Furthermore, we project that there could be additional losses of over \$10 million on the remaining payments if the local currency maintains its current value or appreciates further against the US dollar. From July 2002 until October 2002, five contracts with a value of \$1,615,526 were entered into without the exchange fluctuation clause. Based on the exchange rates, we estimate that implementing the recommendation through October 2002 had saved \$479,951.

#### **Recommendation 15:**

OIOS recommends that UN Habitat determine the responsibility and accountability for the delayed implementation of the critical OIOS recommendation on the exchange fluctuation clause (AF02/24/1/015).

30. *UN-Habitat indicated that the delayed implementation of the OIOS recommendation on the exchange rate fluctuation clause was based on the judgement of the programme management that the removal of the clause might lead to a serious slow down of the Programme and higher tender prices. It is to be noted that the delayed implementation of the recommendation has had both positive and negative effects and, without a more detailed analysis, the real implications of the delayed removal of the clause are difficult to be evaluated. The delayed implementation of the recommendation to remove the currency fluctuation clause did result in the signing of approximately 145 contracts with the currency fluctuation clause and net payments made to contractors (as a result of the currency fluctuation clause) of \$2.7 million.... However, the following effects are also noteworthy:*

- *With the removal of the currency fluctuation clause a major slow down in construction activities was observed and it was noted that a large number of contractors were reluctant to sign or to start contracts after award of the contract to the successful bidder.*
- *Tender prices did register significant increase since September 2002 after removal of the currency fluctuation clause in the new contracts. The overall increase in prices has been over 40% partly because of the appreciation in the local currency vis-à-vis the US Dollar and partly because of the fact that tender prices now reflect higher perceptions of risk given that the contract no longer provides any protection to the contractor in the event of an appreciation of the local currency during the implementation of the project.*
- *A more detailed analysis of the possible cost implications of not removing the fluctuation clause can only be prepared once international personnel move back to N. Iraq.*

31. OIOS will keep this recommendation open because, in its opinion, it was not fully addressed with respect to the reasons for non-implementation and the accountability and responsibility for the delayed implementation action.

#### Alteration of bids

32. It was observed that bids were often corrected by field offices on grounds of arithmetical errors, which often led to changes in the financial order of the bids received. For example, after correcting arithmetical errors, the second lowest bidder became seventh lowest (e.g. Contract DPVII/ERB/CON/940) and third lowest bidder became the lowest (e.g. Contract DPVII/SUL/CON/409). In the second example it was observed that 10 of the 13 bids received had no arithmetical errors. In OIOS' opinion, the practice of amending arithmetical errors in bids makes the procurement exercise susceptible to collusion and fraud, and even more so when independent CPU officials do not handle the functions of procurement. It was also the practice of the field offices



to request bidders to assist with changing arithmetical errors.

**Recommendation 16:**

OIOS recommends that the Settlement Rehabilitation Programme suspend the practice of correcting bids received on grounds of arithmetical errors, until the procurement function is segregated from field offices and are done centrally by Contracts and Processing Unit (AF02/24/1/016).

33. *UN-Habitat agreed with this recommendation and indicated that it was already being implemented. Corrective measures were put in place and are reflected in Section 7 of the revised guidelines for the procurement of civil works contracts.* OIOS will close this recommendation upon receipt and review of the revised guidelines.

**C. Management and organizational issues**

Reporting lines and functions need to be clearly defined

34. According to the procurement delegation of authority, the CTA reports to the ED. However, according to the terms of reference of the Programme Director in Baghdad, the CTA reports to him. We were also informed that the Programme Director reports to the Director, Regional Technical Cooperation Division in Nairobi. There was therefore a need to clarify the reporting arrangements. In OIOS' view, the establishment of a Programme Director post in Baghdad, particularly at the same grade level as the CTA, has contributed to a dilution of responsibilities.

35. Within the SRP there is also a need to properly define the organization structure in order to clarify the lines of accountability. Under the current structure, field office PMOs report directly to the Field Coordinator. Since the PMO's function is critical in the field offices and involves areas such as procurement, finance, personnel and general administration, it would be more appropriate for them to report directly to the CAO in the Core Team. However, for day-to-day administration, the CAO should report on a functional basis to the CTA. In our view, this would eliminate some of the pressure under which the PMOs perform, establish accountability for financial and administrative functions and increase transparency. The CAO should also have the specific responsibility for ensuring adherence to UN Regulations and Rules as well as to the UN Procurement Manual. In OIOS' opinion, it is his responsibility to ensure that these rules, regulations and policies are adhered to.

#### **Recommendation 17 to 18:**

UN-Habitat should:

- (i) Establish clear roles, reporting lines and responsibilities between the CTA, the Programme Director and UN-Habitat (AF02/24/1/017); and
- (ii) Ensure that the CAO is given responsibility for ensuring that the UN Regulations and Rules are adhered to, and that field officers and Programme Management Officers report to him on the administration of UN-Habitat and Settlement Rehabilitation Programme policies and procedures in field offices (AF02/24/1/018).

36. Concerning recommendation 17, UN-Habitat agreed and indicated that action was taken in December 2002 to clarify the reporting lines. With the prevailing political situation in the country, a new organization structure of UN-Habitat's operations is likely to emerge. Once this structure is known, this recommendation will be addressed in reviewing existing Job Descriptions and establishing clear reporting lines with corresponding responsibilities of the individual staff member. OIOS will keep this recommendation open pending notification of implementation.

37. Regarding recommendation 18, UN-Habitat agreed with this recommendation and will ensure that the CAO is fully entrusted with the required authority in order to implement the tasks in a responsible manner within the administration of UN-Habitat's programme in Iraq. OIOS will keep this recommendation open until documentation on such authority is provided.

#### **Poor team building and communication between the field offices and the Core Team**

38. Communications between the Core Team and the field offices were poor and at times unpleasant. Meetings between the Core Team and field offices were infrequent and minutes of such meetings were not recorded. In addition, communication within field offices concerning individual responsibilities was poor. This was particularly the case concerning the role of the PMO in the field offices.

#### **Recommendation 19:**

UN-Habitat should ensure that steps are taken by the Settlement Rehabilitation Programme to improve the communication and team spirit between the Core Team and field offices, establish a schedule of regular meetings with official agendas, and keep minutes of deliberations and decisions (AF02/24/1/019).

39. UN-HABITAT indicated that the SRP has been holding regular weekly meetings with official agendas as and when required. Regular site visits to the two Governorates Dohuk and Suleimaniyah

have started. A new CTA has been recruited in March 2003 who is expected to improve communications and teamwork. OIOS will close this recommendation upon receipt of the revised procedures.

Adequate performance indicators to evaluate project goals have not been established

40. It is essential that UN-Habitat headquarters' management be provided with essential information to properly monitor activities. The SRP produces a number of regular reports, some of which are required by OIP and some for UN-Habitat headquarters. We also noted that the Iraq Programme Coordinator is in the process of establishing a monthly comprehensive report on the activities of the SRP, which should provide valuable management information. However, some reports such as the Monthly Logistics Report, sent to the Chief, Urban Development Branch appear to be of limited value. While these reports produce information on outputs and activities, there have not been any specific key indicators developed to measure either outputs or the effectiveness of the SRP. In OIOS' view, these are essential in order for UN-Habitat headquarters to properly monitor the programme. There was also a lack of formal reporting to senior UN-Habitat management, including the ED and the Director, RTCD.

41. Regular semi-annual workshops have been held in Amman, Jordan for senior UN-Habitat and SRP personnel, however, there were no minutes or records of these meetings, making it difficult for decisions and courses of action to be followed up. It was only in a recent meeting that records of the meeting were kept together with an action plan to implement decisions.

42. Top management also does not approve key documents such as the three-year plan, the six-month distribution phase plans and policy documents (e.g. "common roof" policies). It is essential, in OIOS' opinion, that a formal reporting and approval structure be adopted in order to enable senior management to monitor activities, ensure they align with the UN-Habitat agenda, and enable them to take corrective action in a timely manner.

**Recommendation 20 and 21:**

UN Habitat should:

- (i) Develop key performance indicators to measure project results and achievements against goals, and monitor them on a regular basis (AF2002/24/1/020); and
- (ii) Ensure that key project documents and policy decisions are reviewed and approved by senior UN-Habitat management (AF2002/24/1/021).

43. UN-Habitat accepted recommendation 20 and indicated that it will be implemented as soon as the situation in the country permits. Key performance indicators will be developed to measure project results against stipulated goals, on a regular basis. OIOS will keep this recommendation open in its database until notified of its implementation. UN-Habitat agreed with recommendation

21 and indicated that it was already in force and will be conscientiously followed. OIOS requests further clarification on what actions have been taken to ensure that the project documents and policy decisions are reviewed and approved. OIOS will keep this recommendation open pending receipt of such clarification.

#### **D. Project management**

##### Coordination with other UN agencies needs to be improved

44. In the three governorates of Northern Iraq, approximately 3,200 UN-Habitat constructed houses with a value of around \$17.6 million had remained unoccupied for extended periods. The non-occupancy was due mainly to the absence of complementary services such as water and sanitation, access roads, power, health facilities, educational facilities, and the lack of economic opportunities. Secondly, political issues such as the selection of beneficiaries for these houses also played a major part. This has resulted in many of the complementary services being delivered under separate UN-Habitat projects. In OIOS' opinion, there needs to be increased coordination with other UN agencies to plan for the provision of complementary services before commencement of construction and to determine and agree with the LAs on the beneficiaries.

45. There are also other areas where cooperation between the UN agencies needs to be strengthened. In the internally displaced persons sector, for example, UNOPS plays a key role in providing emergency relief assistance. In one instance, UN-Habitat had expressed concern over UNOHCI's assignment of a project involving construction activities to UNOPS. In UN-Habitat's view, there should be a clearer delineation between its role and that of UNOPS. The poor coordination can negatively affect not only UN-Habitat's operation, but also the overall implementation of humanitarian activities in Iraq. There has also been a similar disagreement between the roles of UN-Habitat and UNESCO in the construction of educational facilities. Without limiting UNOHCI's flexibility to decide on the implementation modalities of the humanitarian programme in Northern Iraq, it is OIOS' opinion that the role of UN-Habitat should be better defined in order to enable it to properly formulate its implementation strategies.

##### **Recommendation 22 and 23:**

OIOS recommends that:

- (i) The Settlement Rehabilitation Programme only commence construction activities after agreement has been reached with all other UN agencies for complementary services in order to ensure that the houses completed do not remain unoccupied (AF02/24/1/022); and
- (ii) UN-Habitat seeks further clarification from OIP and UNOHCI on its role in the humanitarian programme in Northern Iraq (AF02/24/1/023).

46. *UN-Habitat agreed with recommendations 22 and 23. In the case of recommendation 22, they indicated that it has already been implemented. Regarding recommendation 23, UN-Habitat indicated that it has initiated an exchange of letters with UNOPS and has been named as lead agency for the shelter sector. OIOS will close these recommendations upon receipt of documentation supporting these actions.*

#### Establishment of the "common roof" policy

47. A "common roof" policy within the framework of the humanitarian assistance programme in Northern Iraq has been established to provide capacity building for the LAs. Overall, responsibility for this rests with UNOHCI. UN-Habitat has prepared a draft "common roof" policy document, which has not yet been approved by either UN-Habitat management or UNOHCI. However, in a letter dated 12 May 2002 from the Chief Technical Advisor to Suleimaniyah LA officials, a proposal was provided for a "common roof" policy, including a compensation scale for "services rendered", including the payment of overtime. Implementing this policy would therefore involve significant additional expenditures to the SRP. In OIOS' view, it is inappropriate and premature to enter into an agreement with the LAs at this time before UN-Habitat approves the policy and a joint "common roof" approach, including compensation scales, are agreed to by UNOHCI.

#### **Recommendation 24:**

The Settlement Rehabilitation Programme should refrain from entering into agreements with the Local Authorities on establishing a "common roof" policy until such time that it is approved by UNOHCI and UN-Habitat management (AF02/24/1/024).

48. *UN-Habitat indicated that the SRP would refrain from entering into agreements with the LAs on establishing a common roof policy unless UNOHCI and UN-HABITAT management approve this. OIOS has closed this recommendation in its database based on the assurances provided.*

#### Employment of assistant site engineers

49. The Suleimaniyah Field Office had recruited approximately 100 assistant field engineers under SSA agreements, which were converted to service contracts after two months. Their role was to provide additional site supervision of construction projects, however, the recently appointed Suleimaniyah Field Coordinator informed us that the services of the assistant field engineers were no longer required and subsequently their contracts were terminated. We could not find any justification on file as to why they were required in the first place or any written approvals by the CTA or the Programme Director to recruit them. Furthermore, they were not included in the SRP's current budget. This recruitment exercise had resulted in unjustified expenditures of approximately \$470,000.

#### **Recommendation 25:**

The Settlement Rehabilitation Programme should ensure that all personnel expenditures are fully justified, included in the budget and approved by UN-Habitat headquarters (AF02/24/1/025).

50. *UN-Habitat has taken note of this recommendation and confirms that correct procedures and approval for staff recruitment are followed within established Rules and Regulations. Based on the explanation provided, OIOS has closed this recommendation in its database.*

#### **Policy of housing allocation to beneficiaries**

51. One of the principles of the humanitarian programme in Northern Iraq is that priority for settlement should be given to IDPs and to other vulnerable groups. In this regard, the SRP has identified approximately 13,000 IDP families who are in particularly difficult situations. However, there have been no plans to resettle the neediest cases identified. The normal practice in allocating housing is that a list of identified beneficiaries should be established before a particular construction contract is entered into. However, in many instances, projects are started without first having a list of agreed beneficiaries. Rather, the list was only decided on after completion of the houses. Furthermore, there is often pressure by the LAs to determine who is allocated the housing. In OIOS' view, the housing beneficiaries should be determined and included in each disbursement phase project document, and the list of beneficiaries should be agreed on between UNOHCI and the LAs at this stage. This would help avoid the situation where approximately 3,200 houses remained unoccupied for an extended period after completion. Moreover, it is OIOS' view that an independent observation mechanism should be established to determine if the agreed on housing allocation plan has been adhered to.

#### **Recommendation 26 and 27:**

The Settlement Rehabilitation Programme:

- (i) In conjunction with UNOHCI, should take appropriate steps to ensure that a plan is made to resettle the most vulnerable internally displaced persons and other vulnerable groups as identified by the Settlement Rehabilitation Programme (AF02/24/1/026); and
- (ii) Include in each disbursement phase project document a list of identified beneficiaries agreed to by UNOHCI and the Local Authorities (AF02/24/1/027).

52. *UN-Habitat agreed with these recommendations, and confirmed that, regarding recommendation 26, a 3-years plan was finalized and is in place. Related to this plan is the Fast Track Housing Programme, which will address the needs of 13,000 most vulnerable families. Regarding recommendation 27 UN-Habitat indicated that this recommendation has already been*



implemented. OIOS will keep recommendations 026 and 027 open pending receipt of documentation showing implementation.

Alternative strategies need to be examined to minimize construction costs

53. As the local currency has fluctuated widely since May 2002, the SRP reported that contractors were going slow, going on strikes and also hiking up their bids, which affected the implementation rate. In view of these developments, there is a need for the SRP to examine its strategy and develop alternatives such as importing additional construction materials and considering the use of foreign contractors.

**Recommendation 28:**

In order to maintain project implementation rates and stabilize costs during periods of currency instability, OIOS recommends that the Settlement Rehabilitation Programme examine alternative measures including importing major construction materials, and expanding the contractor roster to include international contractors (AF02/24/1/028).

54. *UN-Habitat indicated that all major procurement of goods/materials is processed through international bidding by UNON/Contract and Procurement Section (CPS). International companies with locally registered affiliates were included in the bidding process. International bidding (by companies not registered locally) for civil works contracts is not practical due to the prevailing restrictions in the country, such as obtaining visas in time, security, mobilization time and the contract amounts involved. OIOS requests that UN-Habitat reconsider this recommendation on the basis that prevailing restrictions may no longer be applicable. We will keep this recommendation open pending UN Habitat's reconsideration.*

**E. Human resources management**

Recruitment of international staff

55. It has been recognized by UN-Habitat that it is essential that adequate international staff be appointed to plan, supervise and monitor the SRP's activities. To this extent, various posts have been identified for recruitment. However, in our view the recruitment exercise has taken excessive time considering that the staffing situation has been well known for several years. There have also been external factors such as difficulties in obtaining visas for Iraq, which has exacerbated the situation. The current on-site staffing level is therefore inadequate to ensure the efficient and effective management of the SRP. At the time of the audit, the international staffing situation was as indicated in Figure 2.

**Figure 2**

Office	No. of approved posts	Actual international staff in the SRP at time of audit
Core Team	14	10
Dohuk	5	1
Erbil	5	1
Suleimaniyah	5	1
<b>TOTAL</b>	<b>29</b>	<b>13</b>

56. The staffing level calls for five international staff in each of the three field offices. However, the Suleimaniyah field office makes up over one-half of the total construction activity. In OIOS' opinion, this situation has not been adequately addressed and there is an immediate need to provide additional technical personnel for the Suleimaniyah field office.

**Recommendation 29:**

The Settlement Rehabilitation Programme and UN-Habitat headquarters should review the requirements of each field office, taking into account the volume of work of the field office, and ensure that appropriate levels of staff are recruited on an urgent basis (AF02/24/1/029).

57. *UN-Habitat indicated that the recruitment process for all budgeted staff was finalized, but due to the security situation in Iraq, selected staff could not be hired. In addition, the number of posts approved by OIP was generally perceived as insufficient compared to other agencies. OIOS requests that UN-Habitat reconsider this recommendation in light of the new situation in Iraq, and will keep the recommendation open in its database.*

Personnel Office procedures need to be improved

58. A Personnel Officer, who is assisted by a Personnel Assistant, has recently been appointed. In addition, the field offices have personnel assistants. At the time of the audit, temporary staff had been employed to review and file the large backlog of personnel files, and to update the personnel database. We consider these to be essential tasks that should be completed as soon as possible.

59. We also noted that there was an information gap between the Personnel Office and the field offices. For example, when reviewing the recruitment of assistant site engineers we found that the Personnel Unit had not been provided with complete information on the dismissal of almost 80 of them. Hence, the Personnel Office's records were incorrect. There should be no recruitment, extension of contracts or other personnel action initiated unless the Personnel Officer is fully informed. Procedures to ensure this need to be established.



60. There are also considerable delays in processing the recruitment of local staff, which requires approval by UN-Habitat, Nairobi and the signing of contracts by UNDP, Baghdad. Once the Personnel Unit has fully addressed outstanding matters, consideration should be given by UN-Habitat to delegating authority to recruit and dismiss local staff in order to increase the efficiency of the process.

**Recommendation 30 and 31:**

UN-Habitat should:

- (i) Make immediate arrangements to fully establish the Settlement Rehabilitation Programme Personnel Unit, including adequate staffing and procedures (AF02/24/1/030); and
- (ii) Once personnel procedures have been implemented, consider delegating authority to the Settlement Rehabilitation Programme to recruit local staff (AF02/24/1/031)

61. Concerning recommendation 30, UN-HABITAT indicated that the Personnel Unit was operational and that adequate staffing was in place and Personnel Guidelines issued. OIOS will close this recommendation upon receipt and review of the guidelines. UN-Habitat also concurred with recommendation 31 and indicated that it will take appropriate steps once situation in the country is stabilized. OIOS will therefore keep this recommendation open in its database pending notification of its implementation.

**F. Financial and administrative issues**

Payments made to Local Authority personnel and summer students

62. In a previous OIOS audit report (AF00/101/1), we recommended that UN-Habitat discontinue payment and, in consultation with UNOHCI, address the legal and political ramifications of paying allowances to LA personnel who are not employed by and do not provide any required services to the SRP. However, payments for these services continue to be made. As shown in Figure 3, approximately \$625,519 was paid to 6,912 LA personnel from January 2001 to October 2002.

**Figure 3**

Payments to Local Authority personnel from January 2001 to October 2002								
Payment Type	Erbil Field Office		Dohuk Field Office		Suleimaniyah Field office		Totals	
	No. of persons	Amount (\$)	No. of persons	Amount (\$)	No. of persons	Amount (\$)	No. of persons	Amount (\$)
Project handover costs	2,157	21,570	1,764	17,640	665	6,650	4,586	45,860
Project supervision costs	950	285,158	1,110	234,441	266	20,670	2,326	579,659
Totals	3,107	306,728	2,874	252,081	931	27,320	6,912	625,519

63. SRP field offices also make payments of \$50 each to summer students for training. There was no approval for these payments, which totaled \$17,550 for 351 students in 2001 and 2002. A spot check showed that the payments were inconsistently charged to DSA payments to LAs or to a training and workshops account.

**Recommendation 32 to 34:**

The Settlement Rehabilitation Programme should:

- (i) Cease payment of allowances to Local Authority personnel, as previously recommended by OIOS (AF02/24/1/032);
- (ii) Determine responsibility for not implementing the previous OIOS recommendation to cease payment of allowances (AF02/24/1/033); and
- (iii) Ensure that UN-Habitat approval is obtained for payments to summer students (AF02/24/1/034).

64. *Concerning recommendation 32, UN-Habitat indicated that they will further pursue this recommendation with UNOHCI in order that a common approach and policy for all UN agencies is established (other UN agencies are making DSA payments to Local Authorities for supervision). It should be emphasized that a unilateral termination of this practice by UN-Habitat, without a common policy from UNOHCI, would seriously jeopardize the relations with the LAs. OIOS will keep this recommendation open pending its implementation by UN-Habitat.*

65. *Regarding recommendation 33, UN-Habitat indicated that the decision was taken by the former CTA. OIOS will keep this recommendation open pending receipt of an implementation plan. Also, with regards recommendation 34, UN-Habitat indicated that the recommendation is noted and provided approval of this practice vide SRP Memorandum dated 8 August 1999. OIOS has closed this recommendation in its database.*

Financial administration needs to be improved

66. Our review of financial administration revealed a number of areas where procedures need to be improved and clarified as follows:

- A service level agreement between the SRP and UNDP-Baghdad was entered into in July 1998. According to the agreement, UN-Habitat pays UNDP \$50,000 semi-annually for provision of administrative services including accounting and finance, personnel management, and other general administrative services. However, the SRP had not implemented a mechanism to monitor the services provided to ensure that such services are provided as agreed upon. For example, the agreement stated that a dollar bank account with Rafidain Bank was to be opened, but this was not pursued, despite the fact

that it could reduce the risk of handling cash.

- A recent report of the Board of Auditors stated that occasional fund shortages in UNDP-Baghdad affected the timely delivery of cash to fund SRP's operations. The report also noted that a lack of delegated financial authority to SRP has resulted in a delay in processing financial transactions, including payroll and staff benefits, which can take over a month. These impacts negatively on the SRP's operations.
- Different computer database applications, which include Microsoft Access and Excel spreadsheet, have been installed in the Core Team and field offices to record financial transactions and prepare expenditure reports. However, these databases do not have adequate security controls and audit trails. In spite of our recommendation (AF01/32/2/023) that the Microsoft Access system should be replaced due to its deficiencies, it was still being used.

**Recommendation 35 to 37:**

The Settlement Rehabilitation Programme should:

- (i) Ensure that the services provided under the service agreement with UNDP are provided in accordance with the agreement (AF02/24/1/035);
- (ii) Ensure that arrangements are in place so that adequate cash resources are available as needed (AF02/24/1/036); and
- (iii) Develop and implement a comprehensive computerized cashbook system for use at all field offices and the Core Team office (AF02/24/1/037).

67. *Regarding recommendation 35, UN-Habitat indicated that there was constant contact with UNDP/Baghdad with tangible results in respect of recruitment of national staff and payroll preparation. If need be, a new agreement with UNDP will be proposed. OIOS will keep this recommendation open until implementation. UN-Habitat accepted recommendations 36 and 37 and indicated that the delegation of authority for SRP/Finance will be requested from UN-HABITAT/HQ to cut the bureaucratic process by obtaining adequate and timely delivery of cash once the situation in the country is stabilized. UN-Habitat indicated further that a new accounting system has already been purchased and will be operational in 2003. OIOS will keep these recommendations open pending notification of their implementation.*

Cash management procedures and internal controls need to be strengthened

68. A review of the imprest cash funds maintained by the Core Team and the field offices

including compliance with the Finance Manual and the UN Financial Regulations and Rules found the following deficiencies:

- A finance guidebook, dated 14 July 2002, was issued by the SRP to all field offices in an effort to address an OIOS recommendation to strengthen internal controls. However, this guide was neither reviewed nor approved by UN-Habitat Headquarters. Moreover, a review of the guidebook shows that imprest limits established therein were not maintained and that different limits were in use at the Core Team and field offices. The Integrated Accounting/Budgeting System, recommended in the guidebook, was also not used by field offices or the Core team.
- There was no authorization to establish the imprest funds for the Core Team and field offices, including the dollar limits, description of expenses to be paid, or designation of custodians and alternate custodians, and other relevant instructions as required by Financial Rules 108.4 and 108.5.<sup>1</sup>
- The Programme Management Officer of the Dohuk field office stated that regular surprise cash counts were being conducted and reports submitted to the Core Team. However, the Erbil and Suleimaniyah field offices had not conducted any surprise cash counts since establishment of the funds. The custodian of the Core Team imprest fund stated that surprise counts had been conducted by the CAO and the Finance Officer, however, no documentation of these counts was available. In view of this, it is apparent that the recommendation in a previous OIOS audit report (AF2001/32/2) had therefore not been adequately addressed.
- The physical security arrangements in all field offices need to be reviewed and strengthened. The Core Team still needed to make additional improvements including the use of grill bars instead of glass partitions. Access to cash offices should also be restricted.
- The cash custodian of the Erbil Field Office normally carries the cash received from the Core Team in a paper bag, which poses a serious security problem. Arrangements should be made with the cash dealer to directly deliver the funds to the Erbil Field Office.

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1. It should be noted that the General Assembly has approved new Financial Regulations, effective 1 January 2003 (A/57/396). These regulations and the related financial rules will be promulgated in a revised Bulletin of the Secretary-General early in 2003. OIOS review of the proposed new financial rules indicated that the rules cited in the report remain substantially unchanged.

### **Recommendations 38 to 42:**

The Settlement Rehabilitation Programme should:

- (i) Ensure that the finance guidebook issued to field offices is complete and current, approved by UN-Habitat and UNON, and that it is being properly applied by the field offices (AF02/24/1/038);
- (ii) Ensure that imprest accounts and custodians are approved by the UN-Habitat and UNON (AF02/24/1/039);
- (iii) Periodically conduct surprise cash counts of all cash imprest funds, and properly record the results (AF02/24/1/040);
- (iv) Take the necessary steps to improve security of cash offices in the Core Team and the field offices (AF02/24/1/041); and
- (v) Make arrangements with the cash dealer to make cash deliveries directly to the Erbil Field Office (AF02/24/1/042).

69. *UN-Habitat agreed with recommendations 38, 39 and 40, indicating that it will ensure that the finance guidebook issued to field offices is complete, current, and approved by UN-Habitat and UNO, and that it is being properly applied by the field offices. UN-Habitat also accepted recommendation 39 and indicated that the imprest account custodians list for the Field Offices is identified and once the internationally recruited Cashier/Accountant is in place, and that approval requests will be forwarded to UN-HABITAT/HQ. Concerning recommendation 40, UN-Habitat indicated that this recommendation was implemented and confirmed that this is an ongoing exercise in the field. OIOS will keep these recommendations open until the receipt of documentation showing implementation.*

70. *UN-Habitat accepted recommendation 41 and indicated that it was mostly implemented; Core Team, Suleimaniyah and Erbil Offices have strengthened their cash offices by installing steel doors as of the end of February 2003. In the Dohuk Field Office planning is underway to relocate the cash office to a new place. OIOS will keep this recommendation open until notified that it has been completely implemented.*

71. *UN-Habitat also accepted recommendation 42 and indicated that an instruction has already been issued to the Money Dealer to make cash delivery to the Erbil Field Office. OIOS will close this recommendation upon receipt of the instructions sent to the Money Dealer.*

### **G. Implementation of previous audit recommendations**

72. OIOS reviewed implementation of recommendations contained in previous OIOS audit of the SRP (assignment no. AF2001/32/2 and AF00/101/1) as shown in the Annex. Despite the fact that

most recommendations had been accepted and reported as having been implemented, we found that this was not always the case. As detailed in previous parts of this report, a number of critical recommendations were still outstanding even though there had been adequate opportunity to implement them. We also reviewed the implementation of the Report of the Board of Auditors on the Accounts of UN-Habitat for the biennium ended 31 December 2001. Only one of the three recommendations by the Board concerning field activities had been partially implemented.

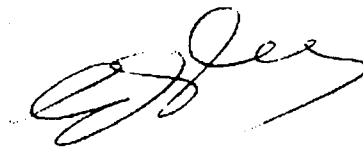
**Recommendation 43:**

We recommend that UN-Habitat headquarters take steps to ensure that the Settlement Rehabilitation Programme monitors the implementation of OIOS and the Board of Auditors' recommendations (AF02/24/1/043).

73. *UN-Habitat agreed to this recommendation.* OIOS has therefore closed this recommendation in its database and will follow up on the steps taken during future audits of the SRP.

**VI. ACKNOWLEDGEMENT**

74. We wish to express our appreciation for the assistance and cooperation extended to the auditors by UN-Habitat Headquarters and the SRP.



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